

Message Text

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ACTION EUR-25

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3766

INFO AMEMBASSY BONN

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AMEMBASSY THE HAGUE

AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: EFIN, ETRD, FR

SUBJECT: FINANCE MINISTER ON MONETARY AND TRADE NEGOTIATIONS

1. SUMMARY: LE MONDE, OCTOBER 4, CARRIES LENGTHY INTERVIEW WHICH ECONOMICS AND FINANCE MINISTER GISCARD D'ESTAIN GRANTED TO ITS ECONOMIC CORRESPONDENTS GILBERT MATHIEU AND PAUL FABRA. BULK OF INTERVIEW WAS DEVOTED TO FRANCE'S POSTURE IN MONETARY AND TRADE NEGOTIATIONS. MOST NOTEWORTHY PRONOUNCEMENTS IN MONETARY AREA WERE REFERENCE TO "HISTORIC TENDENCY TOWARD DEMONETIZATION OF GOLD" AND SUGGESTION THAT IN COMING MONTHS EUROPEAN COUNTRIES SHOULD EXAMINE POSSIBILITY OF RESUMING TRANSACTIONS IN GOLD AMONG THEMSELVES AT MARKET-RELATED PRICE. ON TRADE SIDE, GISCARD, SPEAKING OF TARIFF HARMONIZATION PROPOSALS, RECOGNIZED THAT IF EXERCISE

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WOULD REQUIRE U.S. TO LOWER ITS HIGH TARIFFS, IT WOULD ALSO GIVE

U.S. RIGHT TO INCREASE ITS LOW TARIFFS UP TO EC LEVELS. HOWEVER, HE SUGGESTED AS ALTERNATIVE, EC COULD, IN SUCH CASES, BRING ITS HIGH TARIFFS DOWN TO LOW U.S. LEVELS. END SUMMARY

2. FOLLOWING ARE HIGHLIGHTS OF GISCARD'S COMMENTS ON MONETARY REFORM NEGOTIATIONS:

(A) CONTRARY TO IMPRESSION STATED BY QUESTIONER, GISCARD HAD FEELING SECRETARY SHULTZ WAS JUST AS ANXIOUS AS HIS EUROPEAN COLLEAGUES TO BRING NEGOTIATIONS TO POSITIVE CONCLUSION BEFORE DEADLINE OF JULY 31, 1974, WHICH COMMITTEE OF TWENTY ADOPTED AT NAIROBI ON JOINT PROPOSAL OF GISCARD AND BRITISH CHANCELLOR BARBOUR.

(B) JUST BECAUSE FRENCH OFFICIAL POSITION DIFFERS FROM THAT EXPOUNDED BY LE MONDE CORRESPONDENT FABRA, IT IS WRONG TO CONCLUDE THAT FRANCE HAS ABANDONED ITS FORMER POSITIONS ON MONETARY SYSTEM. NEITHER PRESIDENT POMPIDOU NOR GISCARD EVER THOUGHT GOLD COULD BE CENTER OF FUTURE SYSTEM. NEGOTIATION ON REFORM IS WORLD-WIDE. IN THESE CIRCUMSTANCES, NO COUNTRY CAN HOPE TO IMPOSE ITS VIEWS. THUS, EVERYONE NOW RECOGNIZES, AT LEAST INTELLECTUALLY, THAT MONETARY SYSTEM CAN NO LONGER BE BASED ON DOLLAR. LIKEWISE AT NAIROBI, SECRETARY SHULTZ PUT AN END TO LONG RESISTANCE BY U.S. TO IDEA THAT ONE FEATURE OF FUTURE SYSTEM SHOULD BE GENERAL CURRENCY CONVERTIBILITY. IN SAME SPIRIT, IT WOULD NOT BE IN FRENCH INTEREST TO CLING TO IDEA OF GOLD STANDARD.

(C) THERE IS HISTORIC TENDENCY TOWARD DEMONETIZATION OF GOLD, WHICH IS RATIONAL TENDENCY. BY ACCEPTING GRADUAL DEMONETIZATION OF GOLD, FRANCE HAD BEEN ABLE TO GAIN SOME GROUND. AT NAIROBI, GOVERNOR BANK OF ITALY AND GERMAN FINANCE MINISTER PUT FORWARD IDEA THAT CENTRAL BANKS MIGHT RESUME TRANSACTIONS IN GOLD AMONG THEMSELVES "AT A REASONABLE PRICE -- THAT IS, A PRICE CLOSE TO THE MARKET PRICE." THIS IS QUESTION WHICH SHOULD BE EXAMINED AMONG EUROPEAN COUNTRIES IN COMING MONTHS.

(D) ACCORDING TO GISCARD'S UNDERSTANDING, U.S. DOES NOT THINK IN TERMS OF CONVERTIBILITY INTO GOLD, SAVE FOR EXCEPTIONAL CASES. THUS, ONE OBJECT OF THE NEGOTIATIONS IS TO ESTABLISH POSSIBILITY OF CONVERSION INTO GOLD. FROM FRENCH VIEWPOINT
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INDISPENSABLE MINIMUM WOULD BE TO ALLOW FOR OPTIONAL CONVERTIBILITY INTO GOLD. ANOTHER SOLUTION WOULD BE TO REQUIRE THAT DEBTOR COUNTRY EFFECT SETTLEMENT IN VARIOUS RESERVE INSTRUMENTS IN SAME PROPORTIONS AS THESE INSTRUMENTS OCCUPY IN ITS TOTAL RESERVE HOLDINGS.

(E) ON QUESTION OF INDICATORS, FRANCE IS READY TO ACCEPT MECHANISM WHEREBY INDICATORS WOULD BE USED TO TRIGGER CONSULTA-

TIONS ON THE STATUS OF A CURRENCY, BUT REJECTS IDEA THAT THEY SHOULD AUTOMATICALLY LEAD TO CHANGE OF PAR VALUE. IT IS UTTERLY UNREALISTIC TO THINK THAT ANY COUNTRY WOULD AGREE TO ALLOW VALUE OF ITS CURRENCY TO BE CHANGED SOLELY ON BASIS OF "OBJECTIVE INDICATORS."

(F) MAIN FEATURES OF FUTURE MONETARY SYSTEM WILL INCLUDE STABLE RATES WITH SUPPORT MARGINS NO GREATER THAN THOSE IN FORCE UNTIL LAST MARCH, ADJUSTMENT PROCESS THAT RELIES ON RATE CHANGES AS WELL AS DOMESTIC ECONOMIC POLICIES, PENALTIES ON EXCESSIVE SURPLUS POSITIONS, MANDATORY CONVERTIBILITY INTO SDRS, INCLUDING SOME USE OF GOLD, SDR-AID LINK, ARRANGEMENTS WHEREBY VALUE OF SDR WILL BE SLIGHTLY BETTER THAN AVERAGE OF CURRENCIES, AND REORGANIZED IMF WITH A POLITICAL BODY MEETING TWICE A YEAR SO AS TO AVOID THE "VACUUM" THAT HAS CHARACTERIZED SITUATION SINCE 1970.

3. RE TARIFF HARMONIZATION, GISCARD RECOGNIZED THAT IF EXERCISE WOULD REQUIRE U.S. TO LOWER ITS HIGH TARIFFS IT WOULD GIVE U.S. RIGHT TO INCREASE ITS LOW TARIFFS TO EC LEVEL. HOWEVER, HE SUGGESTED THAT AS ALTERNATIVE, EC, IN SUCH CASES COULD BRING ITS TARIFFS DOWN TO LOW U.S. LEVEL. IN TRADE FIELD HE ALSO SAID EC MUST FORMULATE ITS NEGOTIATING MANDATE BEFORE END OF YEAR AND, RE THREAT OF PROTECTIONISM, THAT GOF POLICY IS TO STRIVE TO MAKE SLOW, STEADY PROGRESS TOWARD FREE TRADE WITHOUT SACRIFICING "SHOCK ABSORBERS" FOR ECONOMY AND TO REMAIN FLEXIBLE IN CONDUCTING NEGOTIATIONS IN ORDER NOT TO PLAY INTO HANDS OF PROTECTIONISM WHICH MENANCES ALL.IRWIN

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